

Turning Negotiation into a Corporate Capability

by Danny Ertel

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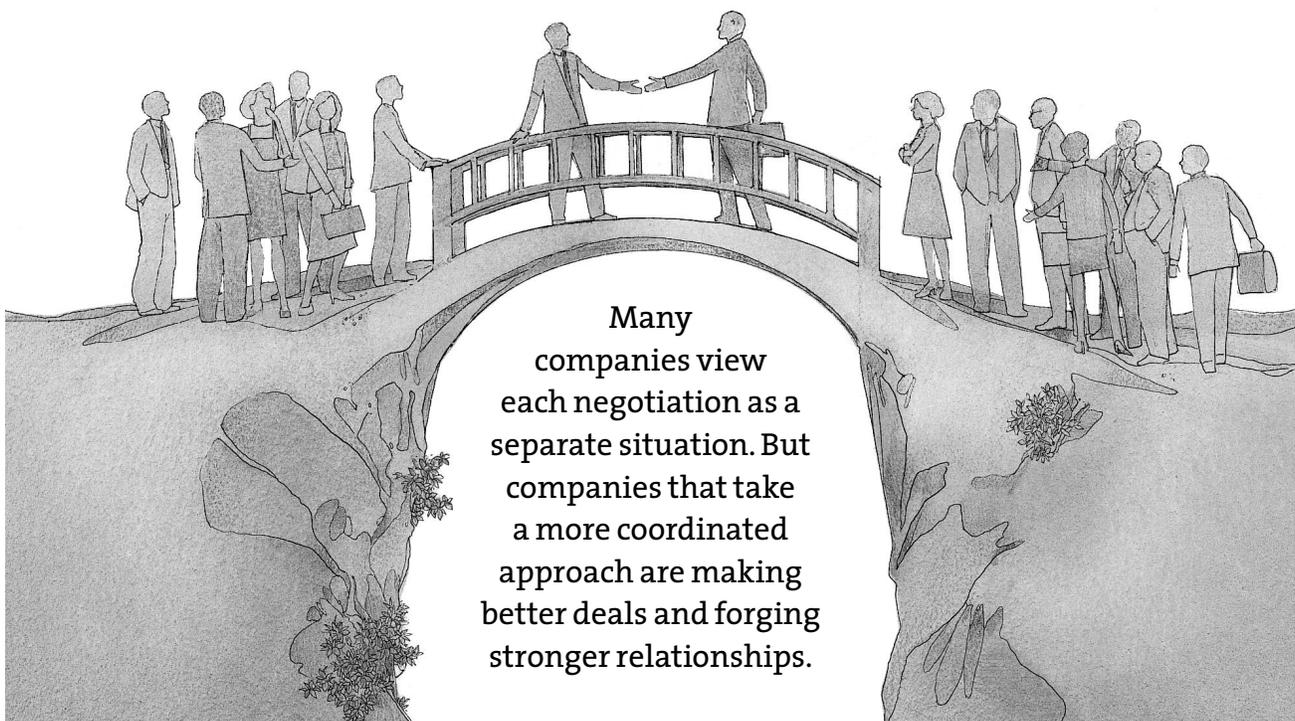
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TURNING **Negotiation** INTO A CORPORATE CAPABILITY

by Danny Ertel



Many companies view each negotiation as a separate situation. But companies that take a more coordinated approach are making better deals and forging stronger relationships.

EVERY COMPANY TODAY exists in a complex web of relationships, and the shape of that web is formed, one thread at a time, through negotiations. Purchasing and outsourcing contracts are negotiated with suppliers. Marketing arrangements are negotiated with domestic and foreign distributors. The contents of product and service bundles are negotiated with customers. Product development pacts are negotiated with joint-venture part-

ners. It's difficult to think of any business initiative that does not require some form of negotiation.

Although the outcome of any single negotiation may not have much effect on a business's fortunes, the thousands of negotiations a typical company undertakes have, in combination, an enormous impact on its strategy and its bottom line. In my years of consulting on negotiations, however, I have found that companies rarely think systematically

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about their negotiating activities as a whole. Rather, they take a situational view, seeing each negotiation as a separate event, with its own goals, its own tactics, and its own measures of success. That approach can produce good results in particular instances, but it can turn out to be counterproductive when viewed from a higher, more strategic plane. Hammering out advantageous terms on a procurement contract may, for example, torpedo an important long-term relationship with a supplier. Or coming up with a creative response to one customer's unusual needs may undermine a broad market or product strategy.

It's easy to understand why companies take a piecemeal view of negotiation. Each negotiating situation tends to be highly complicated in its own right. A negotiator has to balance a welter of contending factors relating to both the substance and the tactics of the negotiation. How much can I bend on price to gain a larger order? Should I strive to establish a long-term relationship, or should I concentrate on closing a short-term deal? Should I make the first offer, or should I wait for the other side to show its hand? Can I salvage this deal, or should I walk away now? It's so hard to make wise trade-offs in any one negotiation that trying to think about coordinating all your negotiations can seem overwhelming.

But as partnerships, alliances, and other agreements become more important in business, the pressure to treat negotiation as an institutional capability, rather than as a series of discrete events, grows stronger. In response, a number of companies have begun to take a fresh look at the way they negotiate. They have found that building a strong negotiation capability is not a matter of creating a set of hard-and-fast rules for all negotiations—putting negotiators in bureaucratic straitjackets won't work. Rather, it requires a different, more coordinated approach to organizing and managing negotiations. Executives have to move away from the situational view of negotiation—they have to see that negotiation can be managed at a corporate level.

In my experience, the companies that have successfully built a negotiation capability have done so through four broad changes in practice and perspective. First, they have put a companywide negotiation infrastructure in place, ensuring that negotiators' priorities remain tightly linked to the company's priorities. Second, they have broadened the measures used to evaluate negotia-

Executives have to move away from the situational view of negotiation to see that it can be managed at the corporate level.

tors' performance beyond matters of cost and price. Third, they draw a clear distinction between individual deals and ongoing relationships. And, finally, they make their negotiators feel comfortable walking away from a deal that is not in the company's overall best interest.

Creating a Negotiation Infrastructure

Negotiation is one of the few functions in the modern corporation that has resisted the trend toward standardizing processes and streamlining work. While companies have reengineered customer service, manufacturing, and even research and development, they have allowed negotiation to remain the realm of the individual. Each negotiation is viewed as a separate event, and its outcome is thought to depend on the negotiator's personal judgment, timing, and experience.

Negotiators, of course, have a vested interest in the notion that every negotiation is unique. It isolates them from interference and criticism. If the negotiation is a success, they reap all the praise. If it's a failure, they can shrug and say,

"You had to be there." And when a manager, trying to be supportive, pats the negotiator on the back and says, "Put it behind you; you'll get them next time," the manager becomes an unwitting coconspirator in perpetuating the situational view.

In fact, the outcome of a negotiation does not hinge solely on the negotiator's individual skills. Negotiation can be coordinated and supported like any other function. Grupo Financiero Serfin, one of Mexico's largest banks, recently found that out during a time of extreme hardship. Like most other Mexican banks, Serfin faced a large number of loan defaults in the wake of the country's 1994 currency crisis. In response, Serfin's negotiating teams followed the pattern typical of loan workouts: They sat down with each debtor and traded concessions over what percentage of the loan would be repaid, when, and with what conditions. They backed up their positions with occasional threats of legal action. But despite the bank's considerable investments in hiring additional staff and providing some basic training, the negotiations did not succeed in improving the overall health of the bank's loan portfolio.

Desperate to improve the performance of the negotiators, the bank decided to take a new tack. It looked for opportunities to standardize and codify its negotiation processes, to impose some management controls, and to change the negotiators' concession-oriented culture. In short, it set about to build a corporate infrastructure for negotiations.

As a first step, Serfin developed and rolled out an improved negotiation-training curriculum that focused on putting trainees into real-world situations. But then the bank went much further. It required that negotiation considerations be incorporated into the initial financial analysis of each workout case. Collaborating closely with the responsible negotiating team, Serfin's analysts defined the bank's various interests in the case, put them in order of priority, developed an understanding of each of the debtor's interests, laid out a set of creative options for resolving the case, and

assessed the debtor's and the bank's alternatives to reaching a negotiated settlement. The entire analysis of the case became a blueprint for its eventual negotiation.

To aid in the analysis, the bank also created a categorization scheme, rating each debtor according to four criteria: the debtor's ability to repay its loans over both the short and the long term, the quality of its relationship with the bank, the quality of its collateral, and the quality of the bank's best alternative to reaching a settlement. The category into which a debtor falls suggests an appropriate negotiation strategy. For example, a debtor who has a good relationship with the bank and whose ability to repay stands to improve over time, but whose collateral is weak, would warrant a highly collaborative, creative approach. A debtor whose relationship with the bank is strained but whose collateral and ability to repay are strong would require an approach that focuses on strengthening the underlying relationship. A debtor whose ability to repay is weak and who has a poor relationship with the bank would warrant a more confrontational approach, with a strong threat of foreclosure.

To help the negotiating teams carry out their strategies, the company set up a system for sharing successful practices. Negotiators in each of the bank's five workout divisions were asked to identify their 20 toughest cases. The team responsible for each case then gathered with negotiators from the other divisions, and, together with a negotiation coach, they reviewed the case in depth, analyzing what had happened to date and what they might do next. The sessions produced a set of lessons that was shared with all the bank's negotiators and was also used to refine the categorization scheme. This exercise not only helped the negotiators conduct subsequent negotiations but also reinforced the idea that negotiation is an institutional process that can be evaluated and fine-tuned systematically.

Serfin's efforts to establish a negotiation infrastructure dramatically changed the way its negotiators viewed their roles and did their jobs.

Far from being a straitjacket, the infrastructure led to a burst of creativity. Guided by the bank's overall interests, Serfin's workout teams became innovative problem solvers, working in partnership with debtors. One exemplary case involved a large loan to a manufacturer that had long been a major borrower. The negotiating team worked with the debtor's managers to find a third-party investor who was willing to take an equity stake in the company. By shoring up the company's finances, the negotiators were able to help it back to health, not only saving the loan but reinvigorating the lending relationship. In the past, the negotiating team would simply have bought time by restructuring the debt, knowing that the company would soon be in default again. As a result of its innovative practices, Serfin's workout division is today considered the best in the country, a model for other institutions.

There are many other equally straightforward ways to begin building a negotiation infrastructure. One prominent professional-services

In reality, the outcome of a negotiation does not hinge solely on the negotiator's individual skills.

firm is developing a centralized database to help its project managers negotiate scope-and-fee agreements with clients. Every time a manager negotiates with a client, he or she will now be expected to fill out a brief questionnaire that captures the approaches taken, the results achieved, and the lessons learned. The answers will be entered into the database, which other project managers can then tap into when preparing for their own negotiations. Rather than acting as lone wolves, project managers will be able to in-

form their own strategies and actions with the collective wisdom of their colleagues. They will also be able to use the database as a "negotiation yellow pages," identifying colleagues with useful experience and expertise. As an added benefit, the database will generate periodic reports for management highlighting the tactics and outcomes of negotiations, and these reports will enable the firm to further refine its understanding of what works and what doesn't in bargaining with clients.

The management tools don't have to be high tech. At another professional-services firm—one of the Big Five accountancies—every partner is expected to engage at least one other partner in a pricing consultation before negotiating fees on any major new engagement. The partners help each other get ready for the negotiation, and they share experiences about the success or failure of prior negotiations conducted under similar circumstances.

At one highly successful software company, the senior vice president of sales has established a set of negotiation protocols for all sales representatives. The protocols lay out steps to be taken in preparing for and conducting negotiations, and they require that the reps be debriefed after each negotiation, ensuring that the company captures important information. The protocols include establishing both sides' options in order of priority, considering multiple options in the course of the negotiation, and using a set of objective criteria to shape the discussion.

The actions these companies have taken are for the most part modest—providing more and better information to negotiators, drawing lessons from past negotiations, setting up categorization and prioritization schemes to guide negotiators in selecting their strategies, conducting regular evaluations using standard criteria. But by creating a broadly supportive infrastructure, they produce powerful results. They don't just improve the outcomes of individual negotiations; they break down the assumption that every negotiation is unique and immune to coordination and control. They form the

basis for more collaboration, creativity, and efficiency – not to mention more accountability – throughout a company's negotiation activities.

Broadening the Measures of Success

The way a company measures the success of a negotiation guides the way a negotiator approaches and conducts the negotiation. Although many companies have begun to stress the importance of forging partnerships with key suppliers and customers, in most cases this goal remains a high-level aspiration that has not been translated into clear performance measures for negotiations. Most measures still center on gaining the best price or achieving the lowest cost. Dollars and cents, after all, are the easiest things to measure, and they form a concrete basis for setting budget goals and for linking negotiators' pay to their performance.

Emphasizing financial measures naturally leads negotiators to focus on cost issues. Consider what happens in most procurement departments. Each year, budget goals are established that assume certain (usually fairly aggressive) price targets will be met for goods purchased. Knowing that they'll be judged according to how well they meet or beat these targets, department managers instruct the purchasing agents to get the best possible prices from suppliers, and they evaluate each deal according to some measure of price – the discount from the list or the prevailing market price, for instance. Knowing they'll be judged on the price breaks they achieve, the purchasers view negotiation as a zero-sum game – for them to win, the other side has to lose. Even if the company espouses a win-win approach in dealing with vendors, the purchasers know that their managers will be amply satisfied if they can bring home a big discount.

Focusing on discounts has an insidious effect on purchasing agents' behavior. It leads them to ignore opportunities to be innovative in working with suppliers to create new value by, for example, reducing inventories, developing higher-quality

A New Set of Measures

One large engineering and architectural-services company has gotten more out of its negotiations by broadening the way it defines success. Rather than aiming simply to book more business at higher hourly rates, the company uses seven criteria in reviewing negotiations:

Relationship: Does the negotiation process help build the kind of relationship that will enable us and our clients to work effectively together over the project's life cycle?

Communication: Do our negotiations help create an environment in which both parties can engage in constructive conversations aimed at solving problems?

Interests: Have we crafted a deal that satisfies our interests well at the same time that it satisfies our client's interests to at least an acceptable level and the interests of any relevant third parties (government regulators, environmental groups, and so on) to at least a tolerable level?

Options: As part of the negotiation process, have we searched for innovative, elegant, and efficient solutions that might offer joint gains?

Legitimacy: After brainstorming a variety of options, have we used objective criteria to evaluate and choose an option that could be justified by both sides?

BATNA: Have we measured the proposed deal against our Best Alternative to Negotiated Agreement, and are we confident that it satisfies our interests better than our BATNA does?

Commitment: Have we generated a set of well-planned, realistic, and workable commitments that both sides understand and are prepared to implement?

Taken together, these criteria serve not only as standards for evaluating the success of any negotiation but also as a checklist that the company's deal makers can use in preparing for negotiations.

components, or communicating electronically. That can hamstring a company's attempts to make strategic changes that require new, more collaborative relationships with suppliers, such as moving to a build-to-order manufacturing system. Furthermore, it undermines the parties' ability to deal effectively with unexpected problems. If a supplier feels that it lost out in a negotiation with a customer—that it was squeezed by the customer—then when the customer has a problem later on, the supplier is likely to respond with indifference at best and downright hostility at worst.

One large engineering and architectural-services company—I'll call it Acme Engineering—has adopted a broader way of measuring success in negotiations. It evaluates a negotiation according to seven diverse standards that focus as much on process as on outcome. (See the insert "A New Set of Measures.") To be judged successful, negotiators have to show, for example, that they established a climate of open communication with the other party, that they explicitly discussed several creative alternatives, that they used objective criteria to choose among the alternatives, and that the final deal fulfills not only the company's interests but the other parties' as well.

It might be argued that these kinds of measures are soft and difficult to quantify—but that's just the point. Because they're not cut-and-dried, they force negotiators and their managers to think more broadly and creatively about negotiations, both when strategies are initially established and as the bargaining unfolds. When negotiations become complicated or difficult, negotiators can't simply fall back to trading concessions. They have to balance a host of considerations, which leads them to explore more options and to hold wider-ranging discussions.

Of course, establishing the right measures is only half the challenge. You also have to link those measures to the incentives that will actually govern negotiators' behavior. To encourage broader, more creative negotiations, a number of companies are expanding the criteria they use to de-

termine purchasing agents' and salespeople's bonuses and commissions. On the procurement side, they are seeking to tie incentives not to the price discounts achieved but to the total cost of ownership of the purchased good, taking into account the operating efficiencies gained through using the supplier, the reductions in defects achieved by the supplier, and even the supplier's role in developing product or service innovations. On the sales side, they are exploring ways to base a significant portion of

Without realizing it, many companies have systematically taught their customers the art of blackmail.

sales reps' compensation on the longevity of their customer relationships, the innovations that have resulted from their interactions with customers, customers' own evaluations of those relationships, and the referral business that can be traced to those customers.

Motivation can come from non-financial rewards as well. In recent years, many companies have set up programs to capture and share knowledge. To encourage employees to participate, they frequently give out various kinds of prizes—even something as simple as a mousepad—to anyone who contributes to or draws on the knowledge banks. Such tokens of appreciation signal the importance management places on the effort and, in time, help build a culture in which sharing knowledge is the norm. Companies may want to think about giving similar awards to those whose day-to-day negotiations with customers, suppliers, and others generate new ideas or otherwise create unusual value. Anything that can jar people out of the concession-bargaining mind-set should be viewed as useful.

Distinguishing Between the Deal and the Relationship

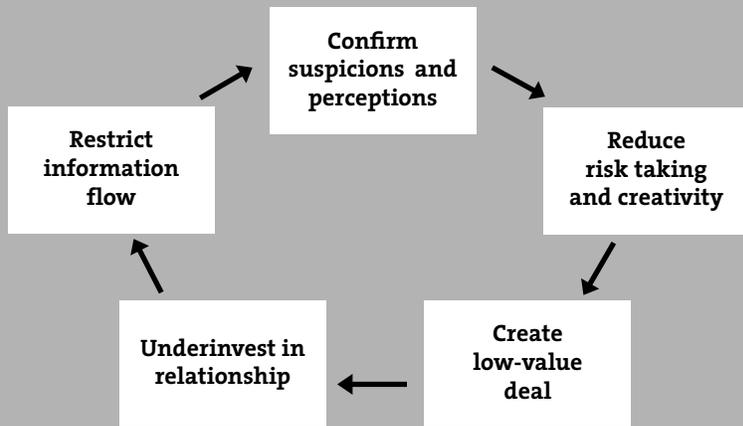
Broader performance measures can get negotiators to look beyond the immediate deal to the larger relationship. But if they don't draw a clear distinction between the components of the deal and the components of the relationship, they can still run into trouble. It's common for negotiators to confuse the deal and the relationship. They fear that if they push too hard to get the best deal possible today, they may jeopardize their company's ability to do business with the other party in the future. Or they fear that if they pay too much attention to the relationship, they'll end up giving away too much and make a lousy deal. Though natural, such confusion is dangerous. It leaves the negotiator open to manipulation by the other side.

Look at what routinely happens to accounting firms. A big client will tell its accountant that the firm has to cut its fees or else the work will be put out to bid. In the face of such a threat, the accountant, after defending the quality of the firm's services and pointing out the cost of switching auditors, will offer up at least a small price break for the sake of the relationship. The discount may be enough to enable the firm to hang onto the account in the short run, but that's rarely the end of the story. In another year or two, the client will be demanding another price cut in exchange for its continued business. And, having established a precedent, the accountant will once again give in.

Over the years, I have asked hundreds of executives to reflect on their business relationships and to ask themselves which kinds of customers they make more concessions to, do more costly favors for, and generally give away more value to. Is it their good customers or their difficult customers? The vast majority respond, with some chagrin, "The difficult ones, of course. I'm hoping to improve the relationship." But that hope is almost always in vain: once customers find that they can get discounts and favors by holding a relationship hostage, why should

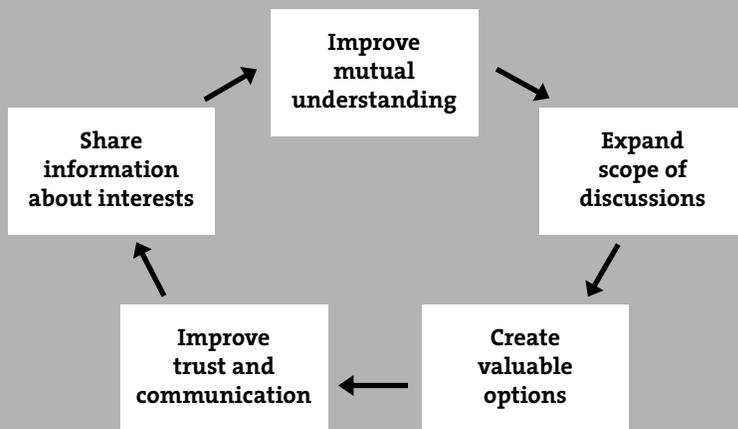
The Deal-Relationship Cycle

The Usual Way



Many negotiators make the mistake of confusing the deal with the broader relationship. To improve a strained relationship, for example, they may offer a concession on price. Or to gain a price concession, they may threaten to terminate the relationship. But such an approach almost always backfires. It creates an adversarial dynamic: Negotiators withhold information to protect their bargaining positions. That leads to greater suspicion and less creativity, which in turn undermines both the immediate deal and the long-term relationship.

A Better Approach



A better approach is to separate the deal from the relationship. When negotiators don't feel as though they need to trade the quality of the relationship for the terms of each individual deal, they exchange information more freely and become more creative and collaborative in their discussions. That leads to more valuable deals and to stronger, more trusting relationships.

they change? Without realizing it, many companies have systematically taught their customers the art of blackmail.

The source of the problem lies in the notion that the relationship and the deal function like a seesaw: to improve one, you have to be willing to sacrifice the other. The reality is that while relationships and deals are indeed linked, they are more likely to move up or down in tandem. A strong relationship creates trust, which allows the parties to share information more freely, which in turn leads to more creative and valuable agreements and to a greater willingness to continue working together. But when a deal is struck that is not very attractive to one or both parties, chances are that they will invest less time and effort in working together, they will become more wary in communicating with each other, and their relationship will grow strained or unravel; as a result, they will be less able to take chances that would create more value. (See the exhibit "The Deal-Relationship Cycle.")

To build strong working relationships and negotiate good deals, companies need to break the pattern of trading off one for the other and begin to pay attention to each separately. They need to get their negotiators to see that a problem with a relationship cannot be resolved through concessions and that a problem with a deal should not be considered a test of the relationship. By drawing a clear line between the immediate deal and the longer-term relationship, two companies can start to create a virtuous cycle. Building a strong relationship will help them through the rough spots in a particular deal, and the value created by closing the deal will further enhance and broaden their relationship.¹

When Eastman Kodak transferred its data center operations to IBM, the two companies struggled to balance the deal and the relationship. A lot of money was at stake, and both sides wanted the terms of the deal to be in their best interest. Kodak wanted to reduce its costs; IBM wanted to increase its revenues. But the companies also knew that the ultimate suc-

cess of the outsourcing arrangement would hinge on the health and openness of their long-term relationship.

Rather than treat the deal and the relationship as intertwined, the companies separated the two explicitly. Key managers from each side sat down and first laid out what particular benefits they hoped to achieve through the terms of the immediate agreement. They then articulated as precisely as possible what would constitute a successful relationship over the long haul. On the basis of those discussions, they developed two discrete lists of issues, one relating to the terms of the deal and one relating to the nature of the relationship. (See the exhibit "Kodak and IBM: A Good Deal and a Strong Relationship.") They agreed that any problem arising from the issues on one list could not be resolved by exacting concessions on issues from the other list. Trouble with a lack of trust or poor communication—relationship issues—could not, for example, be solved through changes in pricing, software-licensing terms, or other deal-related issues. This clear distinction between the deal and the relationship guided Kodak and IBM through the initial negotiation and has continued to define their interactions. It's no coincidence that their relationship has come to be viewed as a model of effective partnering in business.

Negotiation strategies that make trade-offs between the value you can obtain in a deal and the quality of your relationship with the other party are flawed from the start. Managers who accept explanations like "To maintain the relationship, I gave in on price" from their negotiators are condoning both poor deals and weak relationships.

Learning to Walk Away from a Deal

Negotiators, like salespeople, believe that their success hinges on their ability to close deals. If a negotiation falls apart, they see it as a failure—for themselves and for their companies. Their reasoning is easy to understand. By the time most negotiators sit down at the bargaining table, their organizations have already

Kodak and IBM: A Good Deal and a Strong Relationship

When Eastman Kodak and IBM negotiated an outsourcing agreement for the operation of Kodak's data centers, they carefully distinguished between the terms of the deal and the nature of the long-term relationship they hoped to engender. They developed two lists of issues—one relating to the deal, the other to the relationship—and agreed to keep the two sets of issues separate at all times. Following are illustrative excerpts from the two lists.

Deal Issues

- Retirement and replacement of hardware
- Use of third-party software
- Service levels
- Ease of communication
- Record storage, maintenance, and security
- Pricing
- Terms of employee transfers
- Termination and return of data center operations to Kodak or transfer to another party

Relationship Issues

- Reliability
- Giving each other the benefit of the doubt
- Absence of coercion
- Understanding each other's objectives
- Timeliness of consultations
- Mutual respect

invested a lot of time and money in preparation. They've analyzed their own needs, evaluated potential suppliers or partners, created and reviewed a shortlist, selected a finalist, and charted out a bargaining strategy. As the negotiators see it, failing to conclude the deal would waste all that effort, not to mention disrupt what has likely become a well-established schedule. Once a negotiation has begun, going back to the drawing board no longer seems a viable option.

While understandable, that kind of thinking often puts a company's negotiators in a box. They become stuck in a cycle of concessions, allowing the other side to dictate the

details of the deal. At one respected South American metropolitan newspaper, for example, the advertising sales force has developed a deeply ingrained never-lose-a-client culture. The salespeople routinely offer steep discounts from their standard ad rates just to keep advertisers from walking away. Their *average* discount rate, across a \$300 million advertising space, is 45%. Asked to justify the discounts, they point to the small marginal cost of producing an extra page of print. As long as the ad revenue exceeds the marginal cost, they argue, the paper is coming out ahead. What they don't consider, though, is how their behavior has led advertisers to expect ever greater

Making Negotiation an Institutional Capability

To move from a situational view of negotiation to one that recognizes negotiation as an institutional process does not require radical organizational change. It does require putting in place new tools and procedures that will enable executives to better manage and support negotiators.

Steps in the Negotiation Process	Situational View	Institutional View	Examples of Tools and Procedures
Determining objectives	Goals are set on a case-by-case basis; negotiators seek to maximize personal compensation.	Objectives for each negotiation are tied to larger corporate goals; separate goals are established for the deal and the relationship.	<ul style="list-style-type: none"> • deal and relationship scorecards • negotiation instructions template
Preparing for the negotiation	Preparations proceed in an ad hoc manner; often there's no time for any preparation.	Preparations are well structured; negotiators draw on prior corporate experience.	<ul style="list-style-type: none"> • database of past negotiations • worksheet for understanding counterpart's choice • manager's checklist for BATNA review
Conducting the negotiation	Negotiators act as lone wolves with little supervision; success or failure is seen to depend on personal ability.	Managers play an active coaching role; colleagues share a negotiation approach and vocabulary.	<ul style="list-style-type: none"> • negotiation playbook that links strategies to categories of negotiations • training programs for negotiators and their managers • "Yellow Pages" that enable efficient consultation with experienced colleagues
Reviewing the negotiation	Reviews are done sporadically; focus is on cost reductions and percentage of deals closed.	Reviews are performed systematically to capture information so it can be applied to future negotiations; focus is not only on the results of each negotiation but on the way it was conducted; reviews extract lessons rather than apportion blame or praise.	<ul style="list-style-type: none"> • structured review questions that focus not only on outcomes but also on process • debriefing forms that feed into best-practices database • Training in constructive debriefing

discounts. The advertisers, knowing the paper will do anything to keep them, have all the leverage. Each heavily discounted ad may indeed be marginally profitable, but in combination they reduce the paper's overall revenue and profits dramatically.

To get out of this box, managers need to make sure negotiators understand that they always have alternatives to closing a deal. Nearly 20 years ago, Roger Fisher and William Ury introduced into the negotiation lexicon the term "BATNA," an acronym for "Best Alternative to Negotiated Agreement." They showed that negotiation results can be greatly improved by identifying the best alternative to completing the deal and then carefully evaluating the negotiated agreement against that alternative. If the negotiated agreement is better, close the deal. If the alternative is better, walk away.²

The BATNA approach changes the ground rules of negotiation. Negotiators no longer see their role as producing agreements but rather as making good choices. And if they don't reach an agreement, they don't see that as a failure. If they reject a deal because it falls short of their company's BATNA, they have succeeded, not failed.

Negotiators should always think through their alternatives before they even start to negotiate. By identifying a BATNA at the outset, they establish an objective hurdle that any negotiated agreement has to clear. They don't have to rely on subjective judgments that an offer seems too low or unreasonable. As the negotiation proceeds, they should constantly think about ways to improve their BATNA—by doing further research, by considering alternative investments, or by identifying other potential allies. And they should never accept an agreement that is not at least as good as their BATNA.

Sometimes, there is no obvious alternative to a deal. In such cases, the company needs to think about creating a BATNA for itself; it shouldn't just sit back and negotiate from a position of weakness. Consider the example of Colbún SA, the third largest producer of electric power in Chile. Much smaller than its two

biggest competitors, both of which are vertically integrated, Colbún has often found itself at a substantial disadvantage in terms of scale and negotiating leverage. It had to bargain for transmission capacity, for example, with the transmission arm of the largest power company. If it had gone into those negotiations without an alternative, it would have been at the mercy of the other side, and it would have ended up paying dearly for the capacity. But Colbún had an express corporate policy requiring the establishment of a BATNA in any negotiation. Be-

Executives can't just proclaim that it's okay to walk away from a deal; they need to back their rhetoric with action.

cause there were no other existing options for purchasing transmission capacity, Colbún had to create one—developing its own transmission line.

While negotiations with the dominant producer continued, Colbún developed conceptual plans for its own transmission line, conducted feasibility studies, and even put construction contracts out to bid. As development of Colbún's BATNA progressed, the other side steadily reduced its price quote—though Colbún ultimately decided it would be best served by going ahead and building its own line.

Colbún has used a similar BATNA-based strategy in many other important deals, including negotiating the purchase of turbines for a new gas-fired power plant and the transportation of natural gas to the plant. As it did in the transmission-line decision, it has in a number of instances broken off negotiations and pursued its BATNA instead.

Adopting the BATNA approach involves overturning long-held assumptions. Senior executives can't

just proclaim that it's now okay to walk away from a deal; they have to make sure that the message is reinforced all the way down the chain of command. Consider what happened to one company that decided to pursue a new market strategy. From now on, the company's senior executives announced, the company would concentrate on selling only to customers to whom it could deliver high-value-added services at premium prices. Before closing a sale, salespeople should consider whether the prospective customer would meet the new criterion; if not, they should reject the deal and devote the company's resources elsewhere. In the field, however, managers continued to encourage their negotiators to discount heavily if necessary to win or maintain large accounts. The negotiators were still hearing the message "Don't let any big deal get away," and they did not change their behavior at the bargaining table. The new strategy never got off the ground.

Executives need to back up their rhetoric with actions that have an impact in the field. They need to seek out examples in which the company's negotiators decided the organization would be better served by walking away from the deal to pursue their BATNA—and then they have to praise those negotiators and use their approaches as models. If negotiators are not made aware that their colleagues are turning away some deals to pursue other opportunities, they will not believe they truly have that alternative. Companies should also consider making a BATNA evaluation an explicit step in the negotiation process, requiring, for example, that negotiators discuss with their managers how each proposed deal stacks up against a clearly defined BATNA. If negotiators are not required to assess their deals with reference to their BATNA, they may not believe the choice between the two is real.

Not only do executives have to send the right messages internally, they need to be aware of how their external communications may affect negotiators. In an interview published in a widely read magazine, the CEO of a large computer com-

pany once stated that back when he was a sales representative, he never lost a customer. He was trying to counter criticism that the company had gotten so big that it had lost sight of the customer. But imagine how the statement was interpreted by the company's sales force. The CEO was in effect telling the sales reps that they could never say no—and signaling customers that they held all the leverage. The negotiators' BATNAs were instantly rendered inconsequential with one simple public statement.

Companies routinely review public statements for their effect on stock valuation or regulatory compliance. And while I know of no company that has put in place a formal mechanism to review public statements for their effect on negotiations, it may not be such a bad idea. At the very least, those with responsibility for negotiations should alert senior executives and public relations departments to the fact that even the best-intentioned statements can subtly undermine negotiating strategies.

Little Steps to Big Changes

Shifting from a situational to an institutional view of negotiation may represent a radical change for many companies. It certainly represents a

radical change for many negotiators. But it doesn't require radical actions. It requires carefully planned, often subtle, changes in practice, in emphasis, and in communication. In fact, trying to ram the new way of working down negotiators' throats, without adequate explanation or support, will just backfire, leaving negotiators confused and alienated. If, for example, management suddenly announces that all negotiators must follow a set of rigid procedures or fill out a set of forms after every meeting, negotiators will simply complain that the bureaucracy is keeping them from doing real work. They may fulfill the new requirements in a perfunctory manner, but they won't change their perspective or their behavior.

The key to success is putting the negotiation infrastructure in place that makes the lives of negotiators easier and makes their jobs more rewarding. Supplying negotiators with practical information makes it simpler for them to prepare for negotiations while also exposing them to a larger set of proven strategies so they can do more than merely trade concessions. Showing them how the BATNA approach can be used in real-world situations gives them a new source of leverage in their negotiations. Broadening the measures

used to judge their performance allows them greater—not less—freedom in crafting agreements. Establishing categorization and prioritization schemes can increase their productivity and free them to think more creatively. (See the exhibit "Making Negotiation an Institutional Capability.")

Some negotiators will not be able to adapt to the new, more standardized and coordinated approaches—they'll chafe under even the lightest managerial yoke. Most, though, will thrive in the new environment. They will come to find that they have actually gained more power, more prestige, and—not least—more satisfaction. And their companies will reap the benefits of closer, more creative relationships with suppliers, customers, and other partners.

1. For further discussion on separating the deal from the relationship, see Roger Fisher and Scott Brown, *Getting Together: Building a Relationship That Gets to Yes* (Houghton Mifflin, 1988).

2. The concept of BATNA was introduced by Roger Fisher and William L. Ury in *Getting to Yes: Negotiating Agreement Without Giving In* (Houghton Mifflin, 1981). Its successful application has been extensively documented by the negotiation scholar Howard Raiffa, among others. See, for example, Raiffa's classic *The Art and Science of Negotiation* (Belknap Press, 1982).

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